Essen, 2016-02-22 Sofia Avdeitchikova Research Fellow, The Ratio Institute, Sweden

REGIONAL IMPACT OF THE BUSINESS ANGEL CO-INVESTMENT SCHEME – A MARKET DEVELOPMENT APPROACH RATIO

Sofia Avdeitchikova – short bio

- PhD (2008) The nature of business angel investing in a spatial context
- Researcher, evaluator and advisor on entrepreneurship policy



The Swedish co-investment scheme

- €150 millions
- Active since 2009
- 11 funds in 8 regions
- Matching 50% on investment-by-investment basis
- Co-investors business angels, angel syndicates, small early-stage VCs and corporate investors



Rationale of the study

- One of the key purposes of public involvement developing well-functioning, self-sustaining markets for risk finance
- Should this be the focus of our evaluations?

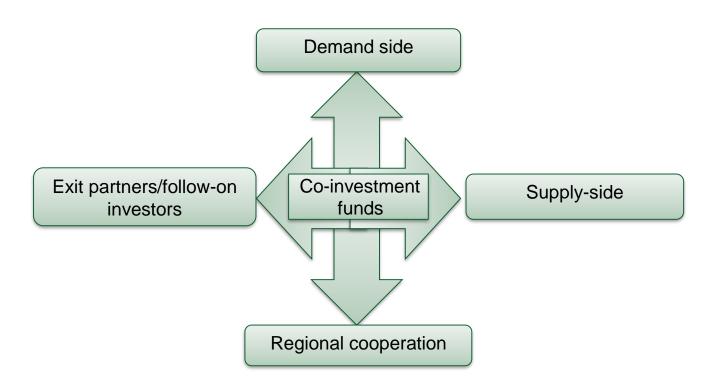


Purpose of the study

- To study how the Swedish regional co-investment scheme has affected regional structures for risk finance. This includes:
 - Assess the development of the risk finance structures in the regions 2009-2015
 - Describe the contribution of the regional co-investment funds this development
 - Identify hinders and enablers for this development



Definition – regional risk finance structures





Stages of evolutionary market development



Avnimelech and Schwartz (2009), modified



Data

- Secondary regional data (start-up rates, growth aspirations, access to finance, etc.)
- Survey data (portfolio firms, co-investors) on attitudes, knowledge development, value created
- Interview data with fund managers 2009 and 2015 (perception of the context)
- Focus groups with fund managers and key actors from the "risk finance structure" in all eight regions



Findings



Unclear policy logic of the Swedish co-investment scheme

- What is the purpose of the co-investment scheme?
- Different logics => different focus and expectations



Contribution of the funds towards regional risk finance structures

To firms	To investors	To regional actors	To exit routes
Competence about attracting and working with external equity finance	Dealflow	Knowledge about external equity finance	Attracting exit partners to the regions through networks and marketing
Better attitudes towards external equity finance	Due dilligence expertise	Bridging the "gap" for regional firms	Working together with firms to find ways for early exits
Increased attractiveness to other financiers	Valuation expertise	Networking and learning dialogues	Building cooperations with regional industrial partners
	Help towards syndication		



The risk finance structure, initial state and development 2009-2015

Region	Initial state	Development	Regions	Initial state	Development
1.Stockholm	(Late) emergence	+	5.Mellersta Norrland	Latent	++
2.Västsverige	Emergence	++	6.Sydsverige 	Emergence	Non- significant
3.Norra Mellansverige	(Early) emergence	++	7.Östra Mellansverige	Emergence	+
4.Övre Norrland	(Early) emergence	+	8.Småland och öarna	Latent	+++



Tentative conclusions

- Positive development of risk finance structures in a majority of the regions studied, driven by:
 - primarily exogeneous factors
 - to various degrees, by the operations of regional co-investment funds
- Enablers for positive development
 - Bottom-up regional dialogue and cooperation
 - Coherent regional innovation and growth strategies
- Hinders for positive development
 - Excessive reliance on public participation not enough leverage!
 - Missmatch of the scope of "the challenge" and the resources available
 - Least effective in most "mature" regions?



Thank you!

- The full study will be available to download from <u>www.tillvaxtanalys.se</u> in March 2016
- Contact me at <u>sofia.avdeitchikova@ratio.se</u>



Backup



Theory of change (fragment)

Activities Outcomes Impact Contact with/info to potential investors Increased interest to invest Information about inv. opportunities Increased knowledge and Development of Support to co-inv.: contract formalia capability to invest system the supply side operations Support to co-inv.: valuation, Due D Increased investment activity Up to 50 % of the investment amount Incr. inflow of inv.from outside risk finance Contact with/info to pot. portfolio firms Better attitudes towards VC Feedback to unsuccessful applicants Incr. knowledge/exp. of VC Development of Help with contacts to unsucc. applicants Co-investment funds' the demand side Enhanced capability to attract Business development to portfolio firms VC and other external capital Help with contacts to portfolio firms of the Development of Increased knowledge about each others work/goals/tools complementary Dialogue with regional policy actors policies and Dialogue with other regional dev. actors Increased coordination of **Development** regional development activities structures Dialogue with potential buyers Increased interest from foreign/domestic ind. actors Dialogue with co-investors Development of Dialogue with regional industry reprs. Increased interest from exits routes Dialogue with firms reg exit routes foreign/domestic fin. actors